

***Nanotech Announces Third Quarter Fiscal 2018 Results***  
***Fifth Consecutive Quarter of Positive Adjusted EBITDA***

**VANCOUVER, British Columbia – August 9, 2018** – Nanotech Security Corp. (TSXV: NTS) (OTCQX: NTSFF) ("Nanotech" or the "Company"), a leading innovator in the research, creation and production of nano-optic structures and colour-shifting materials used in authentication and brand enhancement, today released its financial results for the three and nine months ended June 30, 2018. Unless otherwise stated, all dollar amounts are expressed in Canadian dollars.

**Highlights for the Three Months Ended June 30, 2018**

- **Revenues of \$1.9 million were flat from the second quarter of 2018 but down from \$2.6 million in the third quarter of 2017.** The decrease compared to 2017 was due to the timing of a recurring optical thin film ("OTF") order that was recognized in the third quarter of 2017 but is anticipated to be recognized in the fourth quarter of 2018.
- **Gross margins were 83% versus 74% last quarter and 84% in the third quarter of 2017.** Gross margins continue to reflect management's business strategy and financial guidance.
- **Adjusted EBITDA was \$100,344 for the quarter.** Adjusted EBITDA was essentially flat from the second quarter of 2018, but down from \$857,590 in the third quarter of 2017, mostly due to the stronger OTF revenue in that quarter.
- **Cash balance of \$9.5 million at quarter-end.** The Company finished the quarter with a strong cash position and no debt outstanding after making capital investments of \$2,478,900 during the year to date. The Company does not anticipate any significant capital expenditures in the fourth quarter.

**Highlights for the Nine Months Ended June 30, 2018**

- **Year to date revenue of \$6.1 million was 31% higher than the same period last year.** Paid KolourOptik® and OTF development contracts for customized banknote security features continue to drive period over period revenue growth.
- **Gross margins were 77% for the year to date, consistent with 78% in the same period last year.** Gross margins continue to reflect management's business strategy and financial guidance.
- **Adjusted EBITDA reached \$692,944 for the year to date.** Adjusted EBITDA was up \$658,575 from \$34,369 in the same period last year.

**Recent Developments**

- **Paid development contracts are progressing on track and on budget.** The Company currently derives a significant portion of its revenue from customized development projects with banknote issuing authorities for our KolourOptik and OTF technologies. During 2017, the Company announced a development contract for up to \$30.0 million over a period of up to five years. These development activities incorporate both nano-optic and OTF technologies and are focused on developing security features for future banknotes. All projects are progressing well, and the Company continues to pursue additional development contract revenue as a growth area for the business.
- **M<sup>2</sup> product launch.** During the quarter, the Company unveiled its M<sup>2</sup> product for banknote authentication. This breakthrough security feature combines multi-directional movement with clear colourful images, defining a new category of security feature authentication. This feature also

incorporates high definition nano-text and nano-QR code detectable by a smart phone camera, a first in the market. The thickness of the feature is indistinguishable from the banknote thickness and uses our advanced nano-optic images without the need for lenses, mirrors, or diffractive gradings, all making it ultra-thin, ultra-high definition, and ultra-secure. M<sup>2</sup> can be applied to banknotes as a thread, patch or stripe.

- **Divestiture of non-core business.** Effective June 29, 2018, the Company sold the surveillance equipment and van conversion assets used in connection with its subsidiary, Tactical Technologies Inc. (“Tactical”), and management expects to complete the wind-up of Tactical during the fourth quarter of 2018. Nanotech’s successful shut-down of this operation resulted in a final cash recovery of \$94,618.

### **CEO Commentary**

“Our 2018 targets for revenue growth and Adjusted EBITDA margins continue to be on track. As we anticipated, third quarter revenues were lower year over year due to the timing of a recurring OTF order, but we had modeled this in our 25 to 35% year over year revenue growth guidance,” said Doug Blakeway, Nanotech’s Chairman and CEO. “Although we cannot disclose sources, potential customers have reacted favourably to M<sup>2</sup>, Nanotech’s new commercial banknote product that we launched this past May. Together with our ongoing paid development contracts, we believe that we are well positioned for further growth in our core banknote market.”

### **Outlook**

With a strong balance sheet, including \$9,451,015 in cash and no debt, management continues to be on track to deliver strong annual revenue growth and Adjusted EBITDA margins. A further update on the goals that management established for the 2018 fiscal year is as follows:

1. **Grow revenues by 20% to 40%.** Revenues have grown 31% for the year to date and are on target to be in the 25% to 35% range;
2. **Begin to collect licensing revenue from the tax stamp and commercial markets.** We have entered into distribution agreements in India with two suppliers to the tax stamp markets and are pursuing both tax stamp and commercial market revenue from this geographic market;
3. **Maintain a strong focus on earnings with a target of 15% to 20% Adjusted EBITDA margin.** Adjusted EBITDA margin of 11% for the year to date is expected to improve by year end;
4. **Continue to pursue a volume OTF partnering opportunity with Hueck Folien for banknotes.** Management continues to support manufacturing partner Hueck Folien in an ongoing effort to improve the quality of its production, however, we are not anticipating any volume OTF revenue this year;
5. **Invest in several key marketing hires to ensure internal resources are in place to develop the products, sales channels, and marketing materials necessary to penetrate commercial markets.** Joe Vosburgh joined the Company as Vice President Marketing, bringing over 20 years experience in the successful development and commercialization of breakthrough technologies. Monika Russell, who has 15 years public company experience, also joined as Vice President Finance, which will allow Troy Bullock, our President and CFO, to expand his responsibilities; and
6. **Continue to open new corporate development opportunities by partnering with established companies to enable Nanotech to enter new markets.** The Company announced a distribution agreement appointing Holostik India Limited and Kumbhat Holographics Co. Limited as Nanotech’s authorized distributors and converters for the non-banknote market in India.

### Select Financial Information

All results are reported in Canadian dollars and are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

	Three months ended			Nine months ended		
	2018	2017	Change %	2018	2017	Change %
Revenue	\$ 1,938,248	\$ 2,569,016	(25%)	\$ 6,114,570	\$ 4,682,131	31%
Gross margin	1,615,748	2,157,873	(25%)	4,730,515	3,671,675	29%
Gross margin %	83%	84%		77%	78%	
Adjusted EBITDA <sup>(1)</sup>	100,344	857,590	(88%)	692,944	34,369	1,916%
Net loss	(627,462)	(905,268)	(31%)	(816,352)	(4,453,438)	(82%)
Loss per share						
Basic and diluted	(0.01)	(0.02)		(0.01)	(0.08)	
Weighted average number of common shares						
Basic and diluted	68,395,825	60,027,320		68,395,825	56,006,062	

<sup>(1)</sup>Adjusted EBITDA is a non-IFRS measure as described in the Non-IFRS Financial Measures section of this News Release.

Financial Position as at:	June 30, 2018	September 30, 2017	Change %
Cash	\$ 9,451,015	\$ 10,883,919	(13%)
Total assets	\$ 29,501,429	\$ 30,059,624	(2%)
Total liabilities	1,514,096	1,860,086	(19%)
Total equity	27,987,333	28,199,538	(1%)

### Revenue

Revenues for the three months ended June 30, 2018 decreased by \$630,768 or 25% to \$1,938,248, compared to \$2,569,016 in the same period last year. There was a decrease in OTF deliveries in the third quarter of 2018 from our Thurso facility, which is due to the timing of a recurring OTF order that is projected for the fourth quarter of 2018 versus the third quarter of 2017. This decrease in revenue was partially offset by an increase in development contract revenue.

Revenues for the nine months ended June 30, 2018 increased by \$1,432,439 or 31% to \$6,114,570, compared to \$4,682,131 in the same period last year. Revenue growth was primarily due to an increase in paid development activity, partially offset by a reduction in OTF revenue.

### Gross Margin

Gross margin for the three months ended June 30, 2018 decreased by \$542,125 or 25% to \$1,615,748, compared to \$2,157,873 in the same period last year. Overall, the gross margin percentage was 83% for the three months ended June 30, 2018, consistent with 84% in the same period last year.

Gross margin for the nine months ended June 30, 2018 increased by \$1,058,840 or 29% to \$4,730,515, compared to \$3,671,675 in the same period last year. Overall, the gross margin percentage was 77% for the nine months ended June 30, 2018, similar to 78% in the same period last year.

### Operating Costs

Research and development expenditures for the three months ended June 30, 2018 were \$456,241, an increase of \$40,727 or 10%, compared to \$415,514 in the same period last year. This increase was mainly

related to the timing of OTF deliveries from our Thurso facility, as lower OTF deliveries in the current quarter allowed for more research and development activity compared to the prior year.

Research and development expenditures for the nine months ended June 30, 2018 increased by \$15,604 or 1% to \$1,194,917, which was consistent with \$1,179,313 in the same period last year.

General and administration expenditures for the three months ended June 30, 2018 were \$702,377, an increase of \$23,926 or 4% compared to \$678,451 in the same period last year. The increase was primarily due to salaries and other expenses associated with staff hired in the second quarter of 2018, along with increased rent and other expenditures related to the expansion of our head office.

General and administration expenditures for the nine months ended June 30, 2018 were \$1,934,490, an increase of \$70,503 or 4% compared to \$1,863,987 in the same period last year, due to additional staff hired in the second quarter of 2018, head office expansion expenditures and higher utilities costs at our Thurso operation.

Sales and marketing expenditures for the three months ended June 30, 2018 were \$569,274, an increase of \$66,061 or 13%, compared to \$503,213 in the same period last year. This mainly relates to increased marketing expenses, such as market research, industry tradeshows and new marketing staff.

Sales and marketing expenditures for the nine months ended June 30, 2018 were \$1,515,791, an increase of \$67,442 or 5% compared with \$1,448,349 in the same period last year. This mainly relates to increased salaries, travel, marketing and investor relations expenditures in the current period.

Depreciation and amortization expenditures for the three and nine months ended June 30, 2018 were \$395,336 and \$1,114,034, respectively, compared to \$663,543 and \$2,077,569 in the same periods last year, respectively. The decrease in both periods reflects the Company's declining balance depreciation policy and the intangible assets being completely amortized as at September 30, 2017.

Other income for the three months ended June 30, 2018 was \$51,560, an increase of \$697,507, compared to other expenses of \$645,947 in the same period last year. The increase was primarily due to the repayment of the convertible debentures and long-term debt in 2017, which reduced interest expense by \$571,341 in the current quarter compared to the same period last year, while increased cash on hand in the current quarter resulted in a \$10,573 increase in interest income. In addition, foreign exchange gains recorded during the quarter were \$115,456 higher than in the second quarter of 2017.

Other income for the nine months ended June 30, 2018 was \$335,687, an increase of \$1,418,580, compared to other expenses of \$1,082,893 in the same period last year. The increase was primarily due to the repayment of the convertible debentures and long-term debt in 2017, which reduced interest expense by \$1,036,479 for the year to date compared to the same period last year, while increased cash on hand resulted in a \$69,710 increase in interest income for the year to date. In addition, foreign exchange gains recorded for the year to date were \$312,134 higher than in the same period last year.

### **Adjusted EBITDA**

Adjusted EBITDA for the three months ended June 30, 2018 was \$100,344 compared to \$857,590 in the same period last year. The \$757,246 decrease in Adjusted EBITDA was primarily due to reduced revenue in the current quarter, in combination with increases in sales and marketing and research and development expenditures.

Adjusted EBITDA for the year to date was \$692,944 compared to \$34,369 in the same period last year. The improvement for the year to date reflects an increase in development contract revenue.

### **Net Loss from Discontinued Operations**

Net loss from discontinued operations for the three months ended June 30, 2018 was \$171,542, consistent with a net loss of \$156,473 during the same period last year. However, the net loss from discontinued operations in the current quarter was primarily due to the disposal of assets and the reclassification adjustment of foreign exchange on disposal of the foreign operation of \$167,813, whereas the loss from discontinued operations in the same period last year was generated by business activities.

Net loss from discontinued operations for the nine months ended June 30, 2018 was \$123,322, compared to a net loss of \$473,002 during the same period last year. The decrease in net loss was primarily due to an increase in revenue associated with the delivery of surveillance vans during the year to date, which did not occur in the same period last year. In addition, there was a reduction in overall expenses for the year to date as Tactical was restructured following the Company's decision to sell the business. These reductions were offset by the loss on disposal of assets and the reclassification adjustment of foreign exchange on disposal of the foreign operation of \$167,813 in 2018.

### Net Loss

Net loss for the three months ended June 30, 2018 was \$627,462, compared to \$905,268 during the same period last year. The decrease in net loss reflects lower interest expense, reduced depreciation and amortization expense, and higher foreign exchange gains, partially offset by lower Adjusted EBITDA.

Net loss for the nine months ended June 30, 2018 was \$816,352, compared to \$4,453,438 during the same period last year. The decrease in net loss reflects an increase in Adjusted EBITDA in combination with lower interest expense and reduced depreciation and amortization expense.

### Non-IFRS Financial Measures

In addition to results reported in accordance with IFRS, the Company discloses Adjusted EBITDA as a supplemental indicator of its financial performance.

The Company defines Adjusted EBITDA as net income (loss) excluding the impact of interest and financing costs (net of interest income), foreign exchange gain (loss), income taxes, depreciation and amortization, share-based compensation, and net income (loss) from discontinued operations. The Company believes Adjusted EBITDA is a useful measure as it provides information to management about the operating and financial performance of the Company and its ability to generate operating cash flow to fund future working capital needs, as well as future growth. Adjusted EBITDA may also be used by investors and analysts for the purpose of valuing the Company.

Readers are cautioned that these non-IFRS definitions are not recognized measures under IFRS, do not have standardized meanings prescribed by IFRS, and should not be construed to be alternatives to net earnings determined in accordance with IFRS or as indicators of performance or liquidity or cash flows. The Company's method of calculating these measures may differ from methods used by other entities and accordingly our measures may not be comparable to similarly titled measures used by other entities or in other jurisdictions. The Company uses these measures because it believes they provide useful information to both management and investors with respect to the operating and financial performance of the Company.

	Three months ended		Nine months ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Net loss	\$ (627,462)	\$ (905,268)	\$ (816,352)	\$ (4,453,438)
Finance (income) expense	(20,126)	561,925	(80,394)	1,026,052
Foreign exchange (gain) loss	(31,434)	84,022	(255,293)	56,841
Depreciation and amortization	406,021	730,022	1,186,419	2,187,249
Share-based compensation	201,803	230,416	535,242	744,663
Net loss from discontinued operations	171,542	156,473	123,322	473,002
Adjusted EBITDA	\$ 100,344	\$ 857,590	\$ 692,944	\$ 34,369

## Nanotech Security Corp.

Condensed Consolidated Interim Statements of Operations and Comprehensive Loss  
(Unaudited)

Three and nine months ended June 30, 2018 and 2017

(In Canadian dollars)

	Three months ended		Nine months ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Revenue	\$ 1,938,248	\$ 2,569,016	\$ 6,114,570	\$ 4,682,131
Cost of sales	322,500	411,143	1,384,055	1,010,456
	1,615,748	2,157,873	4,730,515	3,671,675
<b>Expenses</b>				
Research and development	456,241	415,514	1,194,917	1,179,313
General and administration	702,377	678,451	1,934,490	1,863,987
Sales and marketing	569,274	503,213	1,515,791	1,448,349
Depreciation and amortization	395,336	663,543	1,114,034	2,077,569
	2,123,228	2,260,721	5,759,232	6,569,218
Loss from continuing operations before other expenses	(507,480)	(102,848)	(1,028,717)	(2,897,543)
<b>Other (income) expenses</b>				
Foreign exchange (gain) loss	(31,434)	84,022	(255,293)	56,841
Finance (income) expense	(20,126)	561,925	(80,394)	1,026,052
	(51,560)	645,947	(335,687)	1,082,893
<b>Net loss from continuing operations</b>	<b>(455,920)</b>	<b>(748,795)</b>	<b>(693,030)</b>	<b>(3,980,436)</b>
<b>Net loss from discontinued operations</b>	<b>(171,542)</b>	<b>(156,473)</b>	<b>(123,322)</b>	<b>(473,002)</b>
<b>Net loss</b>	<b>(627,462)</b>	<b>(905,268)</b>	<b>(816,352)</b>	<b>(4,453,438)</b>
<b>Other comprehensive loss:</b>				
Items that may be subsequently reclassified to earnings:				
Unrealized foreign exchange gain (loss) on translation of foreign operation	(28,140)	37,817	(98,908)	23,715
<b>Total comprehensive loss</b>	<b>\$ (655,602)</b>	<b>\$ (867,451)</b>	<b>\$ (915,260)</b>	<b>\$ (4,429,723)</b>
<b>Basic and diluted earnings (loss) per share:</b>				
Continuing operations	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.07)
Discontinued operations	\$ 0.00	\$ (0.01)	\$ 0.00	\$ (0.01)
Net loss	\$ (0.01)	\$ (0.02)	\$ (0.01)	\$ (0.08)
<b>Weighted average number of common shares</b>				
Basic and diluted	68,395,825	60,027,320	68,395,825	56,006,062

## Nanotech Security Corp.

Condensed Consolidated Interim Statements of Financial Position  
(Unaudited)

(In Canadian dollars)

	June 30, 2018	September 30, 2017
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 9,451,015	\$ 10,883,919
Accounts receivable	943,014	1,374,442
Inventory	203,648	151,708
Prepaid expenses and other assets	158,251	187,874
Assets held for sale	-	216,225
	<u>10,755,928</u>	<u>12,814,168</u>
Property, plant and equipment	17,357,043	15,856,998
Goodwill	1,388,458	1,388,458
	<u>\$ 29,501,429</u>	<u>\$ 30,059,624</u>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 1,429,423	\$ 1,431,466
Deferred revenue	-	157,171
Liabilities directly associated with assets held for sale	34,128	200,226
	<u>1,463,551</u>	<u>1,788,863</u>
Non-current liabilities:		
Tenant inducement	50,545	71,223
	<u>1,514,096</u>	<u>1,860,086</u>
<b>Shareholders' equity</b>		
Share capital	61,426,483	61,426,483
Contributed surplus	3,250,379	2,715,137
Deficit	(36,689,529)	(35,873,177)
Accumulated other comprehensive loss	-	(68,905)
	<u>27,987,333</u>	<u>28,199,538</u>
	<u>\$ 29,501,429</u>	<u>\$ 30,059,624</u>

## Nanotech Security Corp.

Condensed Consolidated Interim Statements of Cash Flows  
(Unaudited)

Three and nine months ended June 30, 2018 and 2017  
(in Canadian Dollars)

	Three months ended		Nine months ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Cash flows provided by (used in):				
Operating activities:				
Net loss from continuing operations	\$ (455,920)	\$ (748,795)	\$ (693,030)	\$ (3,980,436)
Items not involving cash:				
Depreciation and amortization	406,021	730,022	1,186,419	2,187,249
Share-based compensation	201,803	230,416	535,242	744,663
Accretion of convertible debentures	-	435,271	-	589,858
Other	(6,893)	(6,893)	(20,678)	(20,678)
Non-cash working capital changes	541,453	197,255	42,333	(309,547)
	686,464	(837,276)	1,050,286	(788,891)
Net cash provided by (used in) discontinued operations	(3,018)	(140,648)	94,618	(554,377)
Cash provided by (used in) operating activities	683,446	696,628	1,144,904	(1,343,268)
Investing activities:				
Purchase of property and equipment	(1,490,993)	(6,837)	(2,478,900)	(97,016)
Cash used in investing activities	(1,490,993)	(6,837)	(2,478,900)	(97,016)
Financing activities:				
Issuance of shares for options exercised	-	-	-	223,000
Proceeds on financing, net of costs	-	12,486,784	-	12,486,784
Repayment of convertible debentures	-	(1,370,000)	-	(1,370,000)
Cash provided by financing activities	-	11,116,784	-	11,339,784
Effect of foreign exchange on cash and cash equivalents	(28,140)	37,817	(98,908)	23,715
Increase (decrease) in cash and cash equivalents	(835,687)	11,844,392	(1,432,904)	9,923,215
Cash and cash equivalents, beginning of period	10,286,702	1,391,514	10,883,919	3,312,691
Cash and cash equivalents, end of period	\$ 9,451,015	\$ 13,235,906	\$ 9,451,015	\$ 13,235,906



**Conference Call Details:**

<b>DATE:</b>	Thursday, August 9, 2018	Time: 5:00 PM Eastern
<b>DIAL IN NUMBER:</b>	Toll free (Canada and US): 1-888-220-8451 Conference ID: 9106914	Alternate number: 1-323-794-2590
<b>TAPED REPLAY:</b>	Toll free (Canada and US): 1-844-512-2921 Replay available until September 9, 2018 Replay pin number: 9106914	Alternate number: 1-412-317-6671 Replay pin number: 9106914
<b>WEBCAST:</b>	<a href="http://public.viavid.com/index.php?id=130809">http://public.viavid.com/index.php?id=130809</a>	

**FORWARD-LOOKING STATEMENTS**

The discussion and analysis in this news release contains forward-looking statements concerning anticipated developments in the Company's operations in future periods, the adequacy of Nanotech's financial resources, and the events or conditions that may occur in the future. Forward-looking statements are frequently, but not always, identified by words such as "expects", "anticipates", "believes", "intends", "estimates", "predicts", "potential", "targeted", "plans", "possible" and similar expressions, or statements that events, conditions, or results "will", "may", "could" or "should" occur or be achieved.

These forward-looking statements include, without limitation, statements about the Company's market opportunities, strategies, competition, and the Company's views that its optics-based technologies will continue to show promise for large-scale production. Other forward-looking statements imply that the Company will remain capable of being financed and/or will be able to partner in development until profitability is eventually realized. The principal risks related to these forward-looking statements are the loss of a key customer, that the Company's products receive market acceptance, and that its intellectual property claims will be sufficiently broad or enforceable to provide the necessary protection or attract the necessary capital.

These forward-looking statements are based on the beliefs, expectations and opinions of management on the date the statements are made. Consequently, all forward-looking statements made in the discussion and analysis of the financial conditions and results of operations or the documents incorporated by reference, are qualified by this cautionary statement and there can be no certainty that actual results or developments the Company anticipates will be realized. For additional information with respect to certain of these risks or factors reference should be made to the "Business Risks and Uncertainties" section of the management's discussion and analysis and the notes to the audited consolidated financial statements for the year ended September 30, 2017, as well as with the Company's continuous disclosure materials filed from time to time with Canadian securities regulatory authorities, which are available online at [www.sedar.com](http://www.sedar.com). Nanotech disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, other than as required by law. Caution needs to be used when taking forward-looking statements into account when evaluating the Company.



## About Nanotech

Nanotech researches, creates and produces nano-optic structures and colour-shifting materials used in authentication and brand enhancement applications across a wide range of markets including banknotes, tax stamps, secure government documents, commercial branding, and the pharmaceutical industry.

The Company's nano-optic technology employs arrays of billions of nano-indentations that are impressed or embossed onto a substrate material such as polymer, paper, metal, or fabric. By using sophisticated algorithms to direct an electron beam lithography system, the Company creates visual images with colour-shifting effects such as 3D, perceived movement, and can also display high-definition colours including skin tones, and whites and blacks, which are not possible using holographic technology.

Additional information about Nanotech can be found at the Company's website [www.nanosecurity.ca](http://www.nanosecurity.ca), the Canadian disclosure filings website [www.sedar.com](http://www.sedar.com) or the OTCMarkets disclosure filings website [www.otcmarkets.com](http://www.otcmarkets.com).

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